CHRISTIAN FAMILY CARE AGENCY, INC.

Consolidated Financial Statements
September 30, 2018
With Independent Auditors' Report

CHRISTIAN FAMILY CARE AGENCY, INC.

TABLE OF CONTENTS

Romek, Sanders & Company, P.C.

Certified Public Accountants

Members of American Institute of Certified Public Accountants
and Arizona Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Christian Family Care Agency, Inc.

We have audited the accompanying consolidated financial statements of Christian Family Care Agency, Inc. (an Arizona corporation, not for profit), which comprise the consolidated statement of financial position as of September 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Christian Family Care Agency, Inc. as of September 30, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information on Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Romeo Sanders & Company, P.C.

January 17, 2019

CHRISTIAN FAMILY CARE AGENCY, INC.
Consolidated Statement of Financial Position
September 30, 2018

ASSETS		
Cash and cash equivalents	$	3,806,868
Investments		228,142
Investments - other		1,080,192
Prepaid expenses		417,555
Accounts receivable, net of allowance for doubtful accounts		295,385
Investment restricted for deferred compensation plan		164,405
Cash restricted for charitable trust		41,532
Investments restricted for charitable trust		1,671,999
Cash restricted for property renovations		416,573
Land, buildings and equipment, net of accumulated depreciation		5,513,963
Other assets		7,576
Total assets	$	13,644,190
LIABILITIES		
Accounts payable		
Trade	$	74,663
Construction		574,466
Accrued liabilities		
Payroll and other benefits		407,175
Deferred compensation plan		164,405
Other		55,389
Unearned revenue		34,344
Finance agreement		350,801
Notes payable		2,903,380
Agency fund		7,361
Total liabilities		4,571,984
NET ASSETS		
Without donor restrictions		6,839,094
With donor restrictions		2,233,112
Total net assets		9,072,206
Total liabilities and net assets	$	13,644,190

The accompanying notes are an integral part of this statement

CHRISTIAN FAMILY CARE AGENCY, INC.
Consolidated Statement of Activities
For the Year Ended September 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT			
Service fees	$ 4,805,774	$ -	$ 4,805,774
Contributions	4,767,901	1,466,472	6,234,373
In-kind contributions	93,996	-	93,996
Thrift store sales	358,447	-	358,447
Special events, less direct benefit of $4,613	9,136	-	9,136
Realized and unrealized gains, net of expenses	11,676	103,748	115,424
Interest and dividends	54,273	36,152	90,425
Other	6,295	-	6,295
Gain on sale of property	894,804	-	894,804
Net assets released from restrictions:			
Satisfaction of program restrictions	379,131	(379,131)	-
Satisfaction of property restrictions	733,482	(733,482)	-
Total revenues and support	12,114,915	493,759	12,608,674
EXPENSES			
Program services	7,566,584	-	7,566,584
Supporting activities			
Fundraising	710,484	-	710,484
General and administrative	1,035,080	-	1,035,080
Total supporting activities	1,745,564	-	1,745,564
Total expenses	9,312,148	-	9,312,148
CHANGE IN NET ASSETS	2,802,767	493,759	3,296,526
NET ASSETS, beginning of year	4,036,327	1,739,353	5,775,680
NET ASSETS, end of year	$ 6,839,094	$ 2,233,112	$ 9,072,206

The accompanying notes are an integral part of this statement

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CHRISTIAN FAMILY CARE AGENCY, INC.
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2018

	Program Services			
	Adoption/ Pregnancy	Counseling	Foster Care	Visitation
Salaries	$ 952,053	$ 499,209	$ 1,883,819	$ 632,687
Employee benefits and taxes	225,087	88,185	376,491	121,652
Total salaries and related benefits	1,177,140	587,394	2,260,310	754,339
Professional services	987	713	1,677	226
Printing and marketing	13,046	274	7,427	-
Office	64,239	34,739	137,153	14,483
Facilities	32,078	16,655	64,048	13,738
Rent	19,785	14,123	47,513	19,935
Insurance	85,725	41,345	150,700	22,187
Employee training and other related	3,092	6,906	6,306	90
Travel and transportation	56,152	6,071	80,330	160,696
Dues and subscriptions	8,428	4,328	15,359	1,678
Birth mother living and legal fees	65,078	-	-	-
Therapeutic foster and respite care	-	-	714,393	-
Foster care recruitment and training	-	-	1,527	-
Special events	-	-	-	-
Banking fees	-	-	-	-
Interest	1,697	1,242	4,153	1,705
Bad debts	952	7,204	25,238	4,303
Depreciation	7,651	4,396	18,961	2,471
Property taxes	-	-	-	-
Other	24,840	8,229	44,159	9,994
Total expenses	$ 1,560,890	$ 733,619	$ 3,579,254	$ 1,005,845

			Supporting Activities			
Other	Thrift Stores	Total Program Services	Fundraising	General and Administrative	Total Supporting Activities	Total
$ 257,336	$ 133,238	$ 4,358,342	$ 152,549	$ 505,207	$ 657,756	$ 5,016,098
41,800	25,694	878,909	29,665	129,585	159,250	1,038,159
299,136	158,932	5,237,251	182,214	634,792	817,006	6,054,257
85	-	3,688	101,198	123,516	224,714	228,402
279	1,452	22,478	214,420	7,846	222,266	244,744
6,469	10,528	267,611	6,768	32,962	39,730	307,341
4,485	21,817	152,821	2,822	15,195	18,017	170,838
2,101	116,498	219,955	1,535	8,411	9,946	229,901
10,290	3,630	313,877	5,097	30,870	35,967	349,844
4,422	-	20,816	712	8,493	9,205	30,021
4,345	6,435	314,029	-	692	692	314,721
4,737	-	34,530	567	8,031	8,598	43,128
-	-	65,078	-	-	-	65,078
-	-	714,393	-	-	-	714,393
-	-	1,527	-	-	-	1,527
-	-	-	4,613	-	4,613	4,613
-	4,902	4,902	188,190	10,122	198,312	203,214
187	6,420	15,404	158	63,507	63,665	79,069
-	-	37,697	-	-	-	37,697
271	10,338	44,088	228	6,228	6,456	50,544
-	-	-	-	54,171	54,171	54,171
9,162	55	96,439	1,962	30,244	32,206	128,645
$ 345,969	$ 341,007	$ 7,566,584	$ 710,484	$ 1,035,080	$ 1,745,564	$ 9,312,148

CHRISTIAN FAMILY CARE AGENCY, INC.
Consolidated Statement of Cash Flows
For the Year Ended September 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 3,296,526
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	50,544
Interest, realized and unrealized gains restricted for charitable trust	(139,900)
Unrealized gains on investments	(4,977)
Gain on sale of property	(894,804)
Changes in assets and liabilities, net	
(Increase) decrease in assets:	
Prepaid expenses	(28,401)
Accounts receivable	290,952
Increase (decrease) in liabilities:	
Accounts payable	(61,610)
Payroll and other benefits	(6,123)
Other accrued liabilities	54,171
Unearned revenue	20,827
Agency fund	(102)
Total adjustments	(719,423)
Net cash provided by operating activities	2,577,103
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase/sale of investments, net	(140,985)
Distributions from charitable trust	76,882
Proceeds on sale of property	1,106,532
Cash restricted for property renovations	(416,573)
Purchases of property and equipment	(1,932,910)
Net cash (used) by financing activities	(1,307,054)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on note payable	(18,900)
Net cash (used) by financing activities	(18,900)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,251,149
CASH AND CASH EQUIVALENTS, beginning of year	2,555,719
CASH AND CASH EQUIVALENTS, end of year	$ 3,806,868

The accompanying notes are an integral part of this statement

NOTE 1 – Description of Organization and Summary of Significant Accounting Policies

Description of Organization

Christian Family Care Agency, Inc. ("CFC") was incorporated in March 1982 in the State of Arizona as a not for profit corporation. CFC is a social services organization that provides adoption, foster care and counseling programs focused on meeting the needs of pregnant women, children and families throughout Arizona. CFC also operates two thrift stores.

The Arizona Children's Legacy (the "Legacy") was incorporated as a separate not for profit corporation. The Legacy was created to operate exclusively as a "support organization" to perform the charitable functions of, and carry out the charitable purposes of CFC. The Legacy includes three limited liability companies, solely-owned by the Legacy, which own real property and are responsible for the maintenance of these properties.

CFC is under contract with the Arizona Department of Child Safety (DCS) and Arizona Department of Economic Security Division of Development Disabilities (DDD) to provide certain client services to families and individuals within the programs. This income is subject to specific compliance and delivery of service requirements, which are subject to review by the grantor. During the year ended September 30, 2018, CFC received 24% of its total consolidated revenues and support from services fees related to contracts with DCS and DDD.

Consolidated Financial Statements

The financial statements have been consolidated to include the accounts of Christian Family Care Agency, Inc., Arizona Children's Legacy and the Legacy's wholly owned subsidiaries. The statements are consolidated since CFC has both an economic and controlling interest in the Legacy.

For the year ended September 30, 2018, the consolidated activities of these entities are referred to as the "Organization" in these consolidated financial statements.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all revenues when earned, rather than when received, and reflect all expenses when incurred, rather than when paid.

New Accounting Pronouncement

The Financial Accounting Standards Board issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities.* The Organization has adjusted the presentation of its consolidated financial statements accordingly. The new standards change the following aspects of the Organization's consolidated financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The temporarily restricted net asset class has now been renamed net assets with donor restrictions.
- The financial statements include a new disclosure about liquidity and the availability of resources (NOTE 15).

NOTE 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Donor Restrictions

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the restricted net assets are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Gifts of land, buildings, and equipment are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Use of Estimates

Management uses estimates and assumptions in preparing the consolidated financial statements. Those estimates and assumptions affect certain reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on management's assessment of the current status of individual accounts. The Organization's policy is to charge off uncollectible accounts receivable when management determines the receivables will not be collected.

Cash and Cash Equivalents

The Organization considers highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Donated Assets and Services

Donated assets and use of facilities are recorded at fair value at the date of donation. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Total donated legal services and use of facilities received during the year ended September 30, 2018, were $30,996 and $63,000, respectively and are included in contributions.

In addition, a substantial number of unpaid volunteers have made significant contributions of their time to the Organization. However, these services were not reflected as contributions in the consolidated financial statements since the recognition criteria were not met.

NOTE 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Income Taxes

CFC and Legacy are not for profit corporations that qualify as tax-exempt organizations under Internal Revenue Code Section 501(c)(3) and comparable state law.

As of September 30, 2018, CFC and Legacy had no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements. CFC and Legacy will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax if incurred.

CFC's and Legacy's informational tax returns are subject to review and examination by federal and state authorities. The tax returns for the years ended September 30, 2015 to 2017 are open to examination by federal authorities and for the years ended September 30, 2014 to 2017 by state authorities.

Investments and Investments Restricted for Charitable Trust

The investments and investments restricted for charitable trust portfolios include mutual funds, fixed income, mineral rights and equity securities. The assets are presented in the consolidated financial statements at market value based on quoted market prices. Unrealized gains and losses are included in the change in net assets. Expenses related to investment revenues, including investment advisory fees were $20,627 for the year ended September 30, 2018, and have been netted with revenues in the accompanying consolidated statement of activities.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect account balances and the amounts reported in the consolidated financial statements.

Investments – Other

Investments – other consist of certificates of deposit, have various maturity dates and are fully insured by the FDIC.

Investment Restricted for Deferred Compensation Plan

The investment restricted for deferred compensation plan consists of a single premium immediate annuity.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost, or, for donated asses, the fair value at the date of donation. Maintenance and repairs are expensed as incurred; significant acquisitions and improvements, which cost more than $1,500 with a useful life of more than three years are capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	25 years
Improvements	2 - 25 years
Equipment, fixtures and vehicles	3 - 7 years

NOTE 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Other Assets

Other assets consist of lease deposits for rental properties.

Expense Allocation

The cost of providing programs and other activities has been summarized on a functional basis in the accompanying consolidated statements of activities and functional expenses. Directly identifiable expenses are charged to program services and supporting activities. Expenses related to more than one function are charged to program services and supporting activities on the basis of periodic expense studies. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Supplementary Cash Flow Statement Disclosures

Cash paid for interest during the year was $77,113, none of which was capitalized. No cash was paid for income or excise taxes.

Non-cash transactions: The Organization purchased real property and incurred a note payable for $2,580,000 (see NOTE 8). Included in accounts payable is $574,466 of construction in progress. The Organization also financed liability insurance (see NOTE 7).

NOTE 2 – Fair Value Measurements

The Organization's financial reporting includes a three tier fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

NOTE 2 – Fair Value Measurements (continued)

The applicable assets and liabilities accounted for on a recurring basis under the fair value hierarchy at September 30, 2018, as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Mutual funds	$ 38,648	$ 0	$ 0	$ 38,648
Fixed income	0	53,109	0	53,109
Equity securities	126,538	0	0	126,538
Mineral rights	0	0	9,847	9,847
	165,186	53,109	9,847	228,142
Investment restricted for deferred compensation plan				
Single premium immediate annuity	0	0	164,405	164,405
Investments restricted for charitable trust				
Fixed income	0	345,878	0	345,878
Equity securities	1,326,121	0	0	1,326,121
	1,326,121	345,878	0	1,671,999
Total assets	$ 1,491,307	$ 398,987	$ 174,252	$ 2,064,546
Liabilities				
Deferred compensation plan	$ 0	$ 0	$ 164,405	$ 164,405
Total liabilities	$ 0	$ 0	$ 164,405	$ 164,405

Fair values of investments and investments restricted for charitable trust are determined by the market approach, using quoted market prices for similar investments, yield curves, and other relevant information.

Fair value for the investment restricted for deferred compensation plan and the deferred compensation plan liability have been measured using the income approach based on calculating the present value of the estimated future distributions. This approach takes into account the determination of an appropriate risk-adjusted discount rate (3% at September 30, 2018), the life expectancy of the annuitant as calculated using the Social Security Administration's life expectancy calculator, the required distributions under the terms of the agreement and annuity purchased to fund the agreement. The Legacy measures the fair value of the asset and liability annually and adjusts the measurement inputs based on relevant data.

NOTE 2 – Fair Value Measurements (continued)

Changes in the investment restricted for deferred compensation plan and investment in mineral rights were as follows:

	Deferred Compensation Plan	Mineral Rights
Balance, October 1, 2017	$ 173,872	$ 0
Income	0	10,487
Distributions	(24,031)	(10,487)
Change in fair value	14,564	9,847
Balance, September 30, 2018	$ 164,405	$ 9,847

NOTE 3 – Accounts Receivable

Accounts receivable consists of the following:

DCS/DDD contracts	$ 216,881
Therapeutic foster care contracts	100,955
Counseling services	10,481
	328,317
Less allowance for doubtful accounts	(32,932)
	$ 295,385

Accounts receivable more than ninety days old were approximately $58,000 at September 30, 2018.

NOTE 4 – Investment Restricted for Deferred Compensation Plan and Deferred Compensation Liability

In September 2014, the Legacy approved a nonqualified deferred compensation plan and a related Rabbi Trust (the "Trust") for the current executive director of the Legacy who was also the former executive director of CFC. The arrangement is in exchange for past services performed by the individual on behalf of CFC. To provide a source of funds to assist in meeting the liabilities under the arrangement, the Trust purchased a single premium immediate annuity with terms guaranteeing monthly payments of $2,003 for 10 years certain and life thereafter for the individual. The Legacy owns the Trust and is also the beneficiary for the purchased annuity.

NOTE 5 – Investments Restricted for Charitable Trust

In a prior year, the Organization was the recipient of a charitable trust. The charitable trust agreement states that distributions from the trust must be held as an Organization endowment fund to support future operational activity. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has interpreted the State of Arizona's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a

NOTE 5 – Investments Restricted for Charitable Trust (continued)

result, the Organization classifies as net assets with donor restrictions (a) the original value of gifts on the date received by the Organization, (b) the original value of subsequent gifts on the date received by the Organization and (c) accumulations to the endowment with donor restrictions made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization and, (7) the Organization's investment policies.

The spending policy is defined by the charitable trust agreement, which allows the greater of (1) the entire net income generated by the fund or (2) the "minimum investment return" to be distributed each calendar year to the Organization for operational activities. The term "minimum investment return" refers to a calculation under Section 4942 of the Internal Revenue Code, which is essentially 5% of the assets of the charitable trust.

The Organization has adopted investment policies, approved by the Board of Directors, to provide a predictable stream of funding for operations while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a diversified asset mix, which includes equity and debt securities, and is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5% while growing the funds if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Changes in endowment net assets as of September 30, 2018, are as follows:

Charitable trust net assets, October 1, 2017	$ 1,650,513
Investment income	
Interest	36,152
Realized/unrealized gains, less $20,627 of investment fees	103,748
Distributions	(76,882)
Charitable trust net assets, September 30, 2018	$ 1,713,531

NOTE 6 – Land, Buildings and Equipment

Land, buildings and equipment consist of the following at September 30, 2018:

Land	$	2,777,800
Buildings and improvements		1,340,776
Furniture and equipment		644,090
Vehicles		70,459
Construction in progress		1,402,731
		6,235,856
Less accumulated depreciation		(721,893)
	$	5,513,963

Construction in progress consists of renovations to property purchased in Phoenix. The estimated cost to complete the renovation is $570,100. Included in furniture and equipment is $197,515 of deposits paid for items to be used in the renovated property.

The Organization owns real property located in Phoenix and Tucson, Arizona. Another real property in Phoenix was sold in January 2018. In conjunction with the sale, the buyer of the property agreed to lease back the property to the Organization rent free. The agreement matures on December 31, 2018, but the Organization can elect to terminate the agreement with 30 days written notice. The donated use of facilities has been reported in the consolidated statement of activities for the year ended September 30, 2018.

NOTE 7 – Finance Agreement

The Organization is financing its liability insurance premium with ten payments of $39,678 through June 2019, with interest at 3.9%. The balance is $350,801 at September 30, 2018.

NOTE 8 – Notes Payable

The notes payable consists of the following:

Construction loan to bank not to exceed $3,900,000, interest at 4.3% due monthly, matures August 2024, secured by real property	$	2,580,000
Bank loan, 4.8%, principal and interest payments of $2,928 for 120 months through August 2025 when balloon payment due, secured by real property		323,380
	$	2,903,380

NOTE 8 – Notes Payable (continued)

Maturities on the notes payable at September 30, 2018, are as follows:

Year Ending September 30,		
2019	$	20,066
2020		21,050
2021		22,083
2022		23,167
2023		24,304
Thereafter		2,792,710
	$	2,903,380

NOTE 9 – Line of Credit

The Organization had a $300,000 line of credit that matured in November 2017. In January 2018, the Organization renewed the one-year $300,000 revolving line of credit, with interest at the prime rate plus 2%, but not less than 5%. The line of credit is secured by inventory, accounts receivable and equipment. There were no borrowings on the line of credit during the year ended September 30, 2018.

NOTE 10 – Agency Fund

In 1992, the Organization received funds from the former clients of two adoption agencies, which are no longer in existence. The funds are to be used for the storage of adoption files for ninety-nine years. The balance in the agency fund liability account at September 30, 2018, is $7,361.

NOTE 11 – Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted by the donor for specific purposes. The net asset with donor restriction activity for the year ended September 30, 2018, is as follows:

	Beginning Balance	Additions	Releases	Ending Balance
Program services				
Foster care	$ 3,347	$ 2,522	$ 4,584	$ 1,285
Wrap around services	0	30,000	30,000	0
Pregnancy/adoption	76,150	116,136	120,985	71,301
Other	9,343	167,759	146,680	30,423
Building	0	1,150,055	733,482	416,573
Endowment	1,650,513	139,900	76,882	1,713,531
	$ 1,739,353	$ 1,606,372	$ 1,112,613	$ 2,233,112

NOTE 12 – Service Fee Revenue

For the year ended September 30, 2018, service fee revenue consisted of the following:

DCS/DDD	$	3,033,998
Therapeutic foster care services		1,043,066
Other		728,710
	$	4,805,774

NOTE 13 – Operating Lease Commitments

The Organization has operating leases for two facilities in Phoenix, and one in Tucson. A lease for a Phoenix location will expire in January 2019. Another Phoenix lease expired in August 2018 and is now month-to-month for the remainder of 2018. The lease for the Tucson location expires in June 2019. The Mesa location lease was a month-to-month agreement and has been terminated. Rental expense for the year ended September 30, 2018, was $150,540, which included common area maintenance and rental tax expenses. Future minimum rental payments are as follows:

Year Ending September 30,		
2019	$	54,052

The Organization also leases copiers under operating leases, which require total monthly payments of $1,624, plus taxes and other fees, and expire in February 2019 and April 2020, respectively. Another lease for six months expired in September 2018. Total rental expense under copier lease agreements was $22,338 for the year ended September 30, 2018. Future minimum future rental payments are as follows:

Year Ending September 30,		
2019	$	11,481
2020		2,027

NOTE 14 – Pension Plan

The Organization established a retirement plan pursuant to Section 403(b) of the Internal Revenue Code covering employees eligible to participate in the plan. A predetermined contribution is made to the account of each eligible employee based on annual compensation levels. Contributions are established by the Board of Directors annually and can be up to 15% of eligible compensation, as set by Federal regulations. For the year ended September 30, 2018, the contribution rate was 3% of eligible employee's compensation and total pension expense was $94,297.

NOTE 15 – Liquidity and Funds Available

The following table reflects the Organization's financial assets at September 30, 2018, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, are assets held for others or received from donors for specific purposes.

Financial assets:		
Cash	$	4,264,973
Investments		2,064,546
Investments – other		1,080,192
Accounts receivable		295,385
Financial assets at September 30, 2018		7,705,096
Less those unavailable for general expenditure within one year, due to:		
Donor restrictions		(2,233,112)
Deferred compensation plan		(164,405)
		(2,397,517)
Financial assets available to meet cash needs for general expenditures within one year	$	5,307,579

The Organization has procedures to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Organization has a $300,000 line of credit, which could be drawn upon in the event of a liquidity need. The Organization also has established an operating reserve policy to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding or uninsured loss. The target minimum operating reserve is equal to three to six months of average recurring operating costs.

NOTE 16 – Concentrations

Credit Risk

At various times during the year, the Organization maintains bank balances in excess of the $250,000 FDIC insurance limit. The risk is managed by maintaining all deposits in high quality financial institutions. The Organization also has cash equivalent funds that are covered by SIPC insurance.

Contributions

Contributors to the Organization reside primarily in the State of Arizona. Concentrations of credit risk with respect to the contributions are limited due to a large number of contributors comprising the Organization's contributor base and their reliance on many different revenue sources for their discretionary income.

NOTE 16 – Concentrations (continued)

Contributions (continued)

The Organization is eligible to receive contributions that may qualify as Arizona Foster Care Tax Credits to individuals and residents who file taxes in Arizona. Any legislative changes enacted to Arizona Revised Statues related to tax credits could significantly impact revenues.

NOTE 17 – Contingency

The Organization has provided credit cards to certain employees to be used for Organization-related business expenses. At September 30, 2018, credit cards issued to employees have a credit limit of $30,000.

NOTE 18 – Subsequent Events

Management has evaluated subsequent events through the report date which is the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

In January 2019, the Organization entered into a two-year lease for building space in Prescott, Arizona. The lease commences February 2019 with monthly payments of $1,844 including taxes, maintenance and insurance.

SUPPLEMENTAL INFORMATION

CHRISTIAN FAMILY CARE AGENCY, INC.
Consolidating Schedule of Assets, Liabilities and Net Assets
September 30, 2018

	Christian Family Care Agency, Inc.	Arizona Children's Legacy	Eliminations	Total
ASSETS				
Cash and cash equivalents	$ 3,730,319	$ 76,549	$ -	$ 3,806,868
Investments	48,495	179,647	-	228,142
Investments - other	1,080,192	-	-	1,080,192
Prepaid expenses	417,555	-	-	417,555
Accounts receivable, net of allowance for doubtful accounts	295,385	-	-	295,385
Due from related party	1,000	-	(1,000)	-
Investment restricted for deferred compensation plan	-	164,405	-	164,405
Cash restricted for charitable trust	41,532	-	-	41,532
Investments restricted for charitable trust	1,671,999	-	-	1,671,999
Cash restricted for property renovations	416,573	-	-	416,573
Land, buildings and equipment, net of accumulated depreciation	5,126,368	401,111	(13,516)	5,513,963
Other assets	7,576	-	-	7,576
Total assets	$ 12,836,994	$ 821,712	$ (14,516)	$ 13,644,190
LIABILITIES				
Accounts payable				
Trade	$ 74,663	$ -	$ -	$ 74,663
Construction	574,466	-	-	574,466
Due to related party	-	1,000	(1,000)	-
Accrued liabilities				
Payroll and other benefits	407,175	-	-	407,175
Deferred compensation plan	-	164,405	-	164,405
Other	54,171	1,218	-	55,389
Unearned revenue	34,344	-	-	34,344
Finance agreement	350,801	-	-	350,801
Notes payable	2,580,000	323,380	-	2,903,380
Agency fund	7,361	-	-	7,361
Total liabilities	4,082,981	490,003	(1,000)	4,571,984
NET ASSETS				
Without donor restrictions	6,520,901	331,709	(13,516)	6,839,094
With donor restrictions	2,233,112	-	-	2,233,112
Total net assets	8,754,013	331,709	(13,516)	9,072,206
Total liabilities and net assets	$ 12,836,994	$ 821,712	$ (14,516)	$ 13,644,190

CHRISTIAN FAMILY CARE AGENCY, INC.
Consolidating Schedule of Revenues, Expenses and Changes in Net Assets
For the Year Ended September 30, 2018

	Christian Family Care Agency, Inc.	Arizona Children's Legacy	Eliminations	Total
Revenues and Support				
Service fees	$ 4,805,774	$ -	$ -	$ 4,805,774
Contributions	7,409,373	-	(1,175,000)	6,234,373
In-kind contributions	93,996	-	-	93,996
Thrift store sales	358,447	-	-	358,447
Special events, less direct benefit of $4,613	9,136	-	-	9,136
Rent	-	64,800	(64,800)	-
Realized and unrealized gains, net of expenses	103,747	11,677	-	115,424
Interest and dividends	87,105	3,320	-	90,425
Other	12,295	-	(6,000)	6,295
Gain on sale of property	-	335,049	559,755	894,804
Total revenues and support	12,879,873	414,846	(686,045)	12,608,674
Expenses				
Program services	7,581,278	49,118	(63,812)	7,566,584
Supporting activities				
Fundraising	710,926	383	(825)	710,484
General and administrative	1,037,445	1,183,275	(1,185,640)	1,035,080
Total supporting activities	1,748,371	1,183,658	(1,186,465)	1,745,564
Total expenses	9,329,649	1,232,776	(1,250,277)	9,312,148
Change in net assets	3,550,224	(817,930)	564,232	3,296,526
Net assets, beginning of year	5,203,789	1,149,639	(577,748)	5,775,680
Net assets, end of year	$ 8,754,013	$ 331,709	$ (13,516)	$ 9,072,206